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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000299

SIPDIS

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TAGS: [EFIN](#) [PREL](#) [ECON](#) [BM](#)

SUBJECT: BURMA'S BANKS: GOVERNMENT CUTS LIFELINE

REF: RANGOON 271 AND PREVIOUS

Classified By: DCM Ron McMullen For Reasons 1.5 (B,D)

1. (C) Summary: The regime has pulled the rug out from under the private banks, denying them any Central Bank credit. Though some reconfiguration of the banking system seems inevitable, the GOB has been mum so far on its exact intentions. The longer the delay in action, the longer the country's economic paralysis will extend, and the bigger the mess the regime will inherit in the mid- to long- term. End summary.

GOB's Sleight of Hand

2. (C) Accounts early last week of Central Bank loans to troubled private banks turned out to be totally false. We reported that the Central Bank had extended loans of up to 53 billion kyat (about \$50 million) to the six most desperate banks in exchange for collateral (including the personal residences of their Chairmen). In reality, the Finance Ministry had been leading the banks on with promises of loans if the collateral was right. After a week of berating bank owners for incompetence and demanding in-depth assessments the banks' various real properties, the Finance Ministry told assembled bankers on March 3rd that there would be no loans or other new money for anybody.

The Run Continues

3. (C) The banks are on their own. Without GOB help, the short-term survival of the largest, and hardest hit, private banks (AWB and Yoma Bank) will depend on their ability to call in outstanding loans, bring in new (or return) deposits, and cash in on existing assets. So far these efforts have largely failed. According to economic sources, most borrowers, facing a cash crunch of their own, have refused to repay their loans, and some have even stopped making their regular interest payments. Potential investors, even if they have the cash, are reluctant to buy up AWB's and Yoma's distressed assets for fear of coming under investigation for ties to "criminal elements" in the banking sector.

4. (C) With things as they are now, the situation could rapidly go critical. Despite increasingly smaller weekly withdrawal caps (now set at 100,000 kyat (\$100) per week), roughly 230 billion kyat has fled the banks during the last two weeks. Due to the tightening restrictions, total withdrawals for this week will slow to at most 18 billion kyat (down from 30 billion last week). As the slow bleed continues, however, there is growing risk that some of the banks will start to run out of cash within the next week or so. These failures could be delayed for several weeks, though, even without GOB help, if banks are more successful than they have been in cobbling together some new cash.

Playing God with the Banks

5. (C) The decision by the GOB, made at the highest levels, to withhold Central Bank credit lines clarifies earlier suspicions that the SPDC rulers have no love for the private banking system, and would like to see some or all of the existing private banks dead. To this end, the GOB will apparently conduct thorough reviews of each banks' loan portfolio and operations. Though the Central Bank's twenty audit teams have yet to swing into action, the SPDC has allegedly assigned a mid-level military officer as a Cadre for each of the teams. This inclusion of military officers is a sign that the final analyses of the banks may be based as much on political agendas than financial facts.

6. (C) Assuming the regime has decided to review the banks' operations, the timing of this next move is uncertain. One economist guessed that the regime would wait until the first major bank runs out of cash before sending in the military-led audit teams. In any event, the financial investigations will likely wait until Military Intelligence completes its own inquiries into allegations of embezzlement and illegal foreign exchange trading that hang over the heads of some top bankers.

7. (C) It is equally hard to predict who the GOB will allow

to remain standing when the dust clears. If the auditors do their job properly, a bank's survival will depend primarily on the quality of its loan portfolio (now a big question mark) and the cleanliness of its daily operations. However, the X-factor is the weight the GOB will give to politics and cronyism. For example, while AWB (as the epicenter of the banking crisis) is a logical choice for destruction or dismantling, the bank has outstanding several large loans given to major construction firms for projects in which the GOB is involved. KBZ Bank is a logical survivor, as the Chairman is close friends with Vice Senior General Maung Aye. However, KBZ's lending practices are reportedly among the least sound of any of the privates.

18. (C) One theme that we've been hearing around town is merger. Many are predicting that the regime will force the merger of many of the smaller private banks so that there is more competition and a better spread of deposits (before the crisis, AWB and Yoma together held about 65-70 percent of total deposits). However, we have no solid evidence that the GOB is actually planning to do this, or, if so, when and how they plan to do it.

The Future is Hazy

19. (C) The GOB's decision not to make clear its intentions has left the banking and business community in a bitter mood. No one debates the wisdom of doing an honest and thorough review of the banks and subsequently disposing appropriately of bad banks, bad loans, and bad bankers. If done quickly and properly, this could be a good thing for the economy. However, the longer the government waits to take charge, the more expensive any final solution will be. In addition, the longer the economic paralysis stemming from the banking crisis continues, the greater the damage to the already weak economy, and the increasing chance for some degree of social unrest.

Martinez